



MICHAEL J. MURPHY
State Treasurer

Fall 2004

The LOCAL View

Local Option Capital Asset Lending

Debt policy: The best 'best practice'

by **Michael J. Murphy**
Washington State Treasurer

After 32 years as a public finance professional, I can't claim to know everything, but I've gained a breadth of experience and perspective on the world of finance.

You've all seen the lists of "12 habits of highly successful (fill in the blank)." I don't propose to offer a list for my profession (and that of many of you), but I will talk about some common traits of successful public debt programs.

It all comes down to management – having a plan and sticking to it. Good management can get you through tough situations. Bad management can only make things worse.

We try to operate the LOCAL program, and all our programs at the Office of the State Treasurer, in a sound, prudent and customer-friendly way. I like to think we run a pretty tight ship, and it doesn't happen by accident.

With the help of our colleagues at Fitch Ratings (where some of these facts, figures and principles appeared in an online article), I will outline some debt basics that have been shown to work over my many years in public finance.

Best practices

In 1997, the National Advisory Council on State and Local Budgeting (NACSLB) was created by a consortium of the Government Finance Officers Association, the National Association of State Auditors, Comptrollers and Treasurers, the National Association of State Budget Officers and local government finance organizations.

The NACSLB issued a report in 1998 of roughly 60 best practices in financial management and budgeting for state and local governments. The

practices recommended are recognized by Fitch as critical to strong credit ratings.

According to Fitch: "Not all NACSLB's best practices deal with financial management; many concern taxpayer communications or assessing programs and services."

Fitch believes "if taxpayers understand the services governments provide, they may be less likely to propose restrictive initiatives or force dramatic political or management changes through the electoral process."

We should pay particular attention in the state of Washington, where "governing by initiative" has recently established an unusually strong foothold.

Debt policy

The LOCAL program administrators in my office and all the professionals in our debt management program are guided by an established debt policy. Fitch stresses that a

continued on page 3

Best management practices for government debt issuers

- Fund balance reserve policy/working capital reserves
- Multiyear financial forecasting
- Monthly or quarterly financial reporting and monitoring
- Contingency planning policies
- Policies regarding nonrecurring revenue
- Debt affordability reviews and policies
- Superior debt disclosure practices
- Pay-as-you-go capital funding policies
- Rapid debt retirement policies (greater than 65 percent in 10 years)
- Five-year capital improvement plan integrating operating costs of new facilities
- Financial reporting awards
- Budgeting awards

Courtesy of Fitch Ratings, 2002

Office of the State Treasurer

Mailing address
P.O. Box 40200
Olympia, WA 98504-0200
(360) 902-9000 (main)

Street address
3200 Capitol Blvd. S.E.
Tumwater, WA 98501

LOCAL Program Staff

Allan J. Martin
Deputy Treasurer

Sue Melvin
LOCAL equipment specialist
(360) 902-9022
melvins@tre.wa.gov

Kristi Wolgamot
LOCAL real estate specialist
(360) 902-9020
kristi@tre.wa.gov

Pam Johnson
LOCAL specialist
(360) 902-9021
pam@tre.wa.gov

Nancy Notter
LOCAL accounting
(360) 902-9026
nancyn@tre.wa.gov

www.tre.wa.gov

BARS: Report financings as long-term debt

by **Alexandra Johnson**

State Auditor's Office

The innovative financing mechanism known as LOCAL is not subject to any special accounting or reporting standards, but keep in mind that LOCAL program agreements must be reported as long-term debt.

Washington governments use the LOCAL program to purchase everything from radios and computer systems to fire engines and police cars, as well as to finance building improvements or construction. LOCAL allows them to pool funding needs into large offerings of securities to attract national underwriters and gain economies of scale.

When it comes to accounting for LOCAL transactions, local governments must report them as long-term debt in the financial statements and include them in BARS Schedule 9, *Schedule of Long-Term Debt*.

Debt should be reported in the fund responsible for its repayment. This might be a different fund than the fund that is actually using the capital asset. As with other general

obligation debt, a local government may use the debt service fund to account for redemption payments. If a capital asset is being used by a proprietary fund, the debt should be accounted and reported in that fund **only** if it is expected to be repaid by that fund.

The resources provided by the LOCAL financing agreements should be posted to the BARS accounts 391, *Proceeds of Long-Term Debt* and 594, *Capital Expenditures*.

The accounting and reporting of capital assets acquired with LOCAL program proceeds are identical to those for assets purchased through debt issued by the government.

Debt incurred under this program may be considered either voted or non-voted and should be included in calculation of local government debt limitation (BARS Schedule 10).

If you have additional accounting or reporting questions, contact me at the State Auditor's Office, (360) 664-3149.

Alexandra Johnson is a new member of the LOCAL Advisory Group.

How does a local agency 'get' its LOCAL loan money?

Administrators of the LOCAL program work hard to make doing business with them as easy as possible, but questions do come up. One common question is, simply, "How do I get my money?"

For equipment:

I need to know that the goods were received (personal property certificate), how much the goods or services cost (the invoice), and whether we are paying the invoice directly (a memo) or reimbursing your agency (a memo and a copy of your check).

Before closing, if you have received your goods, you can send your documents directly and OST (Nancy) will pay the vendor directly, either by warrant or wire on the date of closing.

After closing, the dollars are held in a Local Government Investment Pool (LGIP) account, pending your receipt of goods. Just mail or fax the documents in, and payments will be made using your agency's LOCAL dollars. Payment usually takes about five days.

If the vendor wants payment by wire, the vendor must furnish wire instructions.

For real estate:

We must have a local site lease on file, know how much the goods or services cost (the invoice), and whether we are paying the invoice directly (a memo), or reimbursing your agency (a memo and a copy of your check).

Before closing, if you have paid a portion of your construction costs, you can send invoices and checks and OST (Nancy) will reimburse you directly, either by warrant or wire on the date of closing. If it is a refinancing, payment will be wired on closing date to the financing institution.

After closing, remaining real estate dollars are held in an LGIP account, earning interest. As construction progresses, mail or fax copies of invoices and checks in (monthly), and you will be reimbursed using your agency's LOCAL dollars. Payment usually takes about five days.

— by **Nancy Notter**, LOCAL Program accountant

LOCAL Advisory Group

The Hon. Rose Bowman

Washington State Assn. of
County Treasurers
(360) 740-1115

The Hon. Thad Duvall

Washington State Assn. of
County Auditors
(509) 745-8527

Roger Ferris

Fire Commissioners Assn.
(360) 943-3880

Stan Finkelstein

Assn. of Washington Cities
(360) 753-4137

The Hon. Ruth Gerdon

Washington State Assn. of
County Treasurers
(360) 417-2247

The Hon. David Griffiths

Washington State Assn. of
County Treasurers
(509) 667-6405

James Hendrickson

Washington Municipal
Treasurers Assn.
(360) 754-5855

Fred High

Washington Association of
School Business Officials
(253) 373-7295

William R. James

Washington Public Ports
Association
(360) 417-3423

Alexandra Johnson

State Auditor's Office
(360) 664-3149

The Hon. Robert Lothspeich

Washington Association of
County Officials
(509) 397-6230

Debbie Tarry

Washington Finance Officers
Association
(206) 546-1700

The Hon. Ilene Thomson

Washington State Assn. of
County Treasurers
(509) 574-2800

Quick fact

In the first eight months of 2004, LOCAL helped 34 local governments finance 35 equipment and three real estate projects for a total of nearly \$8 million.

Come see us

LOCAL representatives will staff booths at these upcoming conferences:

Washington Finance Officers Association
Sept. 22-24
Wenatchee

Washington Fire Commissioners Assn.
Oct. 21-22
SeaTac

Infrastructure Assistance Coordinating Council
Nov. 2-4
Wenatchee

Best practices

from page 1

strong, approved debt policy is critical to a debt program that is solid in the eyes of rating agencies.

If you're like most local political subdivisions these days, your usual sources of revenue (taxes, property assessments, etc.) aren't offering much budget breathing room for the things you need to buy, fix or replace. That's why the ability to borrow is so important for creating fiscal flexibility for governments of all kinds and sizes.

If you have debt, you need a debt policy. The debt-policy certification program of the Washington Municipal Treasurers Association (WMTA) can help. The WMTA's peer-review committee can evaluate your policy, offer suggestions, and recommend your policy be certified by the association.

Why do you need a debt policy? First and foremost, it offers guidance and consistency for the serious decisions that face a local government when borrowing funds. Remember, when you borrow you're committing funds for a long time. A debt policy can help you set debt limits and better "sell" your borrowing decisions to the community.

A debt policy ...

- Clarifies and documents your financings and the management of all your debt.
- Ensures the many considerations of borrowing are reviewed in decision-making.
- Offers guidance for ongoing obligations (such as disclosure and arbitrage compliance).
- Helps to coordinate long-range planning for capital projects and debt issuance.
- Shows citizens and rating agencies your commitment to responsible debt issuance and management.

(If you are interested in having your debt policy reviewed and certified through WMTA, contact Deputy Treasurer Allan Martin at the Office of the State Treasurer at (360) 902-9007 or allan@tre.wa.gov.)

Key to ratings

A debt policy and other best practices, according to Fitch, help responsible debt issuers through times when the temptation might be to revert to "acts of fiscal or political expediency to maintain or increase services without raising taxes."

Best practices, Fitch says, have provided responsible issuers "with a steady set of guidelines to see them through troubled economic times, shored up investor confidence, and assured continued access to the debt markets."

Fitch assigned a relative value to each of its best practices, giving the highest ("very sig-

" If taxpayers understand the services governments provide, they may be less likely to propose restrictive initiatives or force dramatic political or management changes through the electoral process. "

— Fitch Ratings

nificant") rating to "Fund balance reserve policy/working capital reserves," "Debt affordability reviews and policies" and "Superior debt disclosure practices."

Strong debt-management policies are key to keeping strong ratings, Fitch stresses. The agency believes its "approach to factoring in management and disclosure practices will serve as the standard for credit analysis in the age of the Internet and rapidly expanding technology."

For the whole story and a list of some "worst practices," look up "The 12 Habits of Highly Successful Finance Officers" (Nov. 21, 2002) at www.fitchratings.com.

Annual LOCAL financing schedules

Real estate

Cutoff	Funding date	First payment due
Jan. 1	Mid-March	June 1 (year of issue)
April 1	Mid-June	Dec. 1 (year of issue)
July 1	Mid-September	Dec. 1 (year of issue)
Oct. 1	Mid-December	June 1 (following year)

Equipment

Cutoff	Funding date	First payment due
Feb. 1	Mid-March	June 1 (year of issue)
May 1	Mid-June	Dec. 1 (year of issue)
Aug. 1	Mid-September	Dec. 1 (year of issue)
Nov. 1	Mid-December	June 1 (following year)

In this issue

Page 1 **Best practices for a government finance office include a good debt policy**

Page 2 **Auditor: LOCAL program agreements must be reported as long-term debt**

Page 3 **When my LOCAL loan is done, how do I get my money?**

Office of the State Treasurer
P.O. Box 40200
Olympia, WA 98504-0200



PRSRKT STD
U.S. Postage Paid
Olympia WA
Permit No. 179